

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 93-738-W/S - ORDER NO. 94-655 ✓
JULY 11, 1994

IN RE: Application of Carolina Water Service,) ORDER DENYING
Inc. for an Increase in its Rates and) PETITIONS FOR
Charges for Water and Sewer Service.) REHEARING AND
) RECONSIDERATION

This matter is before the Public Service Commission of South Carolina (the Commission) on the Petitions for Rehearing and Reconsideration of Order No. 94-484 (May 31, 1994) filed by the Consumer Advocate for the State of South Carolina (the Consumer Advocate) and Michael C. Watford, Sr. (Mr. Watford). Order No. 94-484 granted Carolina Water Service, Inc. (CWS or the Company) an increase in its rates and charges for water and sewer service. After thorough consideration of the issues raised by the Consumer Advocate and Mr. Watford, the Commission finds and concludes that the Petitions for Rehearing and Reconsideration should be denied for reasons set forth below.

PETITION OF CONSUMER ADVOCATE

The Consumer Advocate contends that the Commission erred by not normalizing the Company's capitalization percentage for operators' salaries. He asserts the test year capitalization percentage of 5.74% was less than the percentages for the prior two years and, therefore, the Commission should have normalized the capitalization of operator's salaries using a 3-year average of 8.85%. The Commission disagrees.

The Commission finds that the capitalization percentage for the test year is directly related to the amount of time spent on capital projects. The Company and Staff accurately reflected this amount on both a per book and pro forma basis by capitalizing a portion of pro forma wages and salaries based on actual test year experience. The level of capital project activity and related time spent on these activities is the controlling factor for capitalization of salaries and not some pre-determined percentage. These amounts will, by their very nature, vary from year to year, but are not an item of extraordinary nature that requires normalization. Therefore, the Commission denies the Consumer Advocate's position on this issue. Hamm v. South Carolina Public Service Commission, ___ S.C. ___, 422 S.E.2d 110, 114 (1992) citing Parker v. South Carolina Public Service Commission, 280 S.C. 310, 313 S.E.2d 290 (1984).

The Consumer Advocate contends that the Commission erred by not making adjustments to certain test year expenses to recognize the fact that the test year was drier than normal. The Commission disagrees.

First, the substantial evidence of record supports the Company's assertion that its challenged "expense variances" are representative of ongoing expenses of the utility. Company witness Murphy testified that each of the expenses was representative of an ongoing level of expense. He further testified that some of the challenged expenses were due to increased and continuing regulatory oversight. Tr. Vol. 1, p. 90, line 20 - p. 93, line 6. Moreover, there is no indication that the expenses which the Consumer

Advocate challenges (i.e. electric equipment repairs, maintenance repairs) are affected by dry weather conditions. Further, even if each of the challenged expenses were larger due to the fact that the test year was dry, the Consumer Advocate has not proposed a corresponding adjustment to decrease the utility's test year revenues to reflect the larger consumption of water during the dry test year. Therefore, the Commission concludes that it properly denied the Consumer Advocate's expense variance adjustment.

The Consumer Advocate alleges error by the Commission in its treatment of a customer growth adjustment. The Consumer Advocate alleges that the record does not "support the Commission's assumption that [there is] an equal contribution to net operating income for each customer added to the system." Petition at p. 4. The Consumer Advocate further argues that the Commission's finding that it saw no reason to depart from its established practice of computing customer growth is not sufficient legal basis for rejecting the Consumer Advocate's position on customer growth.

The Commission disagrees with the Consumer Advocate's assertions. In Order No. 94-484, the Commission noted that the customer growth adjustment offered by the Consumer Advocate's witness recommended an adjustment to revenue with no corresponding adjustment to expenses. The Consumer Advocate states in his Petition that the Company must respond to this "challenge" and present evidence to support "an assumption." The method accepted by the Commission in this case, as in past cases, assumes an equal contribution to net operating income for each customer added to the system. The Commission believes that this method adopted by the

Commission in this case is the better method as it takes into account an adjustment to revenue and expenses while the Consumer Advocate's method only adjusts revenues without the corresponding adjustment to expenses. The Commission pointed out in Order No. 94-484 that the Commission found "no reason to depart from its established practice of computing customer growth," but the Commission did not, as the Consumer Advocate asserts, reject the Consumer Advocate's position simply because of an existing practice. Therefore, the Commission believes that this ground for Reconsideration or Rehearing must be denied.

The Consumer Advocate contends the Commission erred by allowing CWS to recover rate case expenses from prior proceedings which the Commission had previously approved but which had not yet been recovered by the Company. The Consumer Advocate claims that because the Commission approved the recovery of these prior rate case expenses over a three year period, allowing CWS to now collect these past expenses constitutes retroactive ratemaking. The Commission disagrees.

After further review of its Order No. 94-484 and the evidence of record at the hearing, the Commission notes that there is an error in its Order. In Order No. 94-484, the Commission reported that it was allowing CWS to recover expenses for three prior rate cases, including Docket Nos. 88-241 and 89-610. See Order No. 94-484, footnote 7. This was incorrect. Instead, the Commission actually allowed CWS to recover those expenses associated with two previous filings, Docket No. 91-641 filed in December 1991 but later withdrawn without prejudice and with Docket No. 91-641 filed

in November 1992.¹ These expenses had previously been approved in Order No. 93-402 (May 11, 1993) and, consequently, at the time of the issuance of Order No. 94-484, CWS had recovered approximately one-third of these rate case expenses. In Order No. 94-484, the Commission approved recovery of the unrecovered remaining expenses associated with these two prior dockets, \$146,191, over three years.

The Commission concludes that its accounting treatment of the remaining unrecovered rate case expenses is appropriate. The Commission is allowing CWS to recover in total only that amount which had been previously approved but yet unrecovered, \$146,191. Instead of allowing CWS to recover \$146,191 over the remaining two years of the prior amortization, the Commission is requiring amortization over three years. Consequently, CWS will recover less of its past rate case expenses per year. Additionally, it must be remembered that rate case expenses which are not verifiable at the time of the hearing are not allowed in cost of service, but are deferred until the next case. This recovery does not constitute retroactive ratemaking. The unrecovered rate case expenses are current expenses of the utility and are properly recoverable from its ratepayers.

The Consumer Advocate alleges the Commission erred in its decision regarding deferred charges. The Consumer Advocate states that the record is devoid of evidence to support the contention that items such as main breaks and painting tanks are extraordinary expenses and further asserts that allowing the Company to

1. There is no mathematical difference in the amount recovered.

unilaterally deem pre-test year items as deferred expenses results in a mismatch of test year revenues and expenses.

In Order No. 94-484, the Commission did not allow inclusion of the deferred charges in rate base. However, the Commission did allow the recovery of expenses of certain deferred charges. The Consumer Advocate states that items such as painting tanks and repairing main breaks are not "extraordinary" expenses for which recovery should be granted without prior Commission approval. Deferred charges are those items for which an expenditure has been made but for which the expense has not been reflected on the income statement. As painting tanks and repairs to mains are expenses which must be paid for when the work is completed but the useful life of which is for a period longer than a given test year, the Commission has allowed the treatment of these expenses as deferred charges with the recovery spread over several years. The Commission believes that such treatment lessens the impact of the expense to the ratepayer and does not, as the Consumer Advocate alleges, result in retroactive ratemaking. The Commission discerns no error in its treatment of the deferred expenses and denies the Consumer Advocate's Petition on this ground.

The Consumer Advocate also assigns error to the Commission's use of "per book" figures in calculating cash working capital instead of "as adjusted" figures as proposed by the Company and the Consumer Advocate. The Commission disagrees.

In Order No. 83-404 dated July 13, 1984, the Commission accepted a proposal of the Consumer Advocate to compute cash working capital using per book amounts. The Commission concluded

in Order No. 83-404 that the use of per book amounts was fair and reasonable and should be utilized in computing working capital. The Consumer Advocate now argues that since rates are based on pro forma expenses that cash working capital should be based on the same pro forma data. The Commission disagrees with this assertion. The per book numbers are known figures. The Commission finds that the use of the per book amounts is fair and reasonable. Therefore, the Commission concludes that it properly used per book figures in calculating cash working capital.

Finally, the Consumer Advocate contends the Commission erred in its treatment of the New Account Charge. In the present case, CWS requested that the Commission increase its New Account Charge from \$27.00 to \$28.00. The Commission denied this increase. The Consumer Advocate argues that, not only should the Commission not have approved the increase, but it should also have reduced the \$27.00 charge to \$14.00. The Commission disagrees.

In Docket No. 91-641-W/S, Order No. 93-402 (May 11, 1993), the Commission approved an increase in the New Account Charge to \$27.00. No party, including the Consumer Advocate, challenged this increase. The Commission finds it would be unfair to reduce a charge which it had previously approved and to which no party expressed any objection. Therefore, the Commission denies the Petition on this issue.

PETITION BY INTERVENOR WATFORD

By his Petition for Reconsideration or Rehearing, Mr. Watford urges the Commission to consider the quality of water, the cost of the water compared to neighboring communities, and customer

service.

Mr. Watford argues that CWS is not entitled to a rate increase because the water from the CWS system is inferior to water from West Columbia and other municipalities. Mr. Watford alleges that the water provided by CWS is an "inferior product" due to too much lime (calcium carbonate) added by CWS and because no fluoride is added to the water. The Commission disagrees with this assertion.

Although Mr. Watford may not be satisfied with the quality of water, the Commission is not convinced that the evidence in the record demonstrates that CWS is providing an inferior product. There is no indication in the record that the water does not meet quality standards or other Department of Health and Environmental Control guidelines. As for the lack of fluoride in the water, the Commission noted in Order No. 94-484 that it does not have the authority to require a utility to add chemicals such as fluoride to its water system. Furthermore, while Mr. Watford may desire fluoride in the water, other customers may not want the fluoride in the water.

Mr. Watford next requests reconsideration or rehearing based on the cost of water compared to neighboring communities. While costs of similar companies or neighboring communities are sometimes used for illustrative purposes, the Commission realizes that it is inappropriate and against regulatory ratemaking procedures to set rates based on comparisons. In Order No. 94-484, the Commission determined the appropriate operating revenues, operating expenses, and operating margin for CWS based upon the evidence presented during the hearing. Based upon these regulatory standards, the

Commission granted the rates authorized by Order No. 94-484. The Commission sees no error in its method used for determination of the rates in Order 94-484, and therefore denies Mr. Watford's request as to this ground.

Next, Mr. Watford requests that the Commission consider the customer service of CWS. Mr. Watford alleges that since the Company has not been able to correct his complaints that the Company is not entitled to a rate increase. The Commission disagrees with this assertion and further believes that the record contains substantial evidence of the customer service provided by the Company. The Commission denies Mr. Watford's Petition on this ground.

Finally, Mr. Watford alleges that one of the Commissioners exhibited prejudice toward him during the hearing and was absent for a portion of the proceedings. However, Mr. Watford did not object during the hearing or make any attempt to note his concerns on the record. As no objection or challenge appears in the record as to this allegation, the Commission finds that Mr. Watford waived any challenge on this ground. Therefore, the Commission denies Mr. Watford's Petition on this ground.

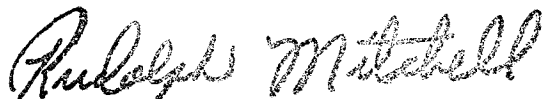
For the reasons stated above, the Commission believes its actions and Order No. 94-484 were just and reasonable in this case.

IT IS THEREFORE ORDERED THAT:

1. The Petitions for Reconsideration and Rehearing filed by the Consumer Advocate and Mr. Watford are hereby denied.

2. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)